



Remarks For

The Hon. Steven C. Preston
Administrator
U.S. Small Business Administration

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Thank you, Steve, for that very nice introduction. Last year when I was with you in Florida, I had only been in the job for a few months and had laid out an agenda to drive major change at the SBA.

The agenda was focused on knowing what outcomes we are trying to accomplish and being clear how our programs would do that. We needed to focus on the needs of our customers and partners as a foundation for driving those outcomes. We had to enable our employees to serve those customers and partners effectively by providing them with training, tools, and a quality work environment. And we needed to make sure that we run a tight ship with strong fiscal oversight, clear accountabilities, and transparency

The reason we are so concentrated on outcomes is that it is critical that we know what our mission is and why.

We don't want to compete with or displace the private sector in any way. We want broad economic policies that provide fuel to the small business economy in our country, and enable the private sector. And we want our programs to expand the reach of private sector and thereby expand the tremendous engine that entrepreneurship and small business ownership is to our country.

The reason we are so focused on how we are working with our partners is because you all do the work that makes our programs succeed. And if we are not focused on your needs, our programs can't be effective. Last year:

- Our partners in the lending community provided over \$20 billion in SBA-guaranteed loans to small businesses – our total portfolio is approaching \$70 billion
- Our resource partners provided training and technical assistance to well over 1 million people
- Our partners in the federal government purchased \$77.6 billion in good and services from small businesses in prime contracts in FY2006
- Our SBIC partners invested \$2.6 billion in over 2000 small businesses

When we look at SBIC investments and where those investments go – both geographically as well as by industry – we see clear differences with comparable private venture capital investments. These differences emphasize the role that SBICs plays in getting venture capital to America's small businesses.

First of all, SBIC investments are smaller on average than other comparable private-sector venture investments – and significantly so. The average venture capital investment is greater than \$4 million; the average SBIC investment is less than \$1 million.

SBIC investments reach different industries, are more diverse across industries, and are more likely to go to firms in the manufacturing industry, as well as the wholesale or resale trades.

They are less geographically concentrated than comparable private venture capital investments. Whereas 59 percent of comparable private venture funding went to California and Massachusetts – less than 20 percent of SBIC investment went to the highest recipient – New York.

Reaching businesses, industries, and geographies that would not otherwise receive capital on favorable terms, or at all, is an important foundation to the program.

An area that I discussed with you last year is our mission to be a continuing – and increasingly effective partner – in fostering small business formation and growth in areas of our country with high poverty and unemployment rates – underserved markets.

We know that when small businesses begin to take hold in underserved markets, they can change the face of the community and change the game for people who live there. And we know that when the SBA and its partners are reaching into those communities effectively, they are much more likely to experience that change.

The reason is that the transformative power of small business provides the power to create the kind of robust economic foundations that sustain vibrant communities. It has the power to open opportunities for new jobs and new services and to build a sense of optimism. And has the power to tap into another very strong force: ownership.

President Bush says it well in discussing the ownership society he has worked so hard to expand:

“...if you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country.”

The impact of that vitality is crucial to our economy. Small businesses account for around half of non-farm GDP and half of all private sector employment nationwide.

The importance of small businesses to underserved markets in inner cities and rural areas is magnified because small businesses employ an even higher percentage of workers in both urban and rural communities across the country.

Accelerating entrepreneurial success in underserved communities reaches to the very heart of the agency’s mission, but it’s something that we need to work with all our partners to accomplish. To do this, we’re taking steps forward to be more effective partners ourselves.

First, we are addressing it with products to target the underserved markets. We unveiled Rural Lender Advantage, a simplified and streamlined loan process that is tailored specifically to the needs of small lenders, like rural and community banks, who do so much to support local

economies. We are losing too many small lenders because our programs are too difficult to use – but we intend to win them back.

We're revising our Community Express loan so that it's more focused on underserved markets, but also so that it's easier for lenders and borrowers to use.

Second, we are addressing it with goaling and outreach. Every SBA office now has a performance goal to increase lending in underserved markets and has incentives for minority loans. And, as a result, we are seeing higher growth in both of these areas than before – and it's producing results.

A soon to be released study compares SBA's two loan products to conventional small business loans. It demonstrates that the dollar volume of SBA-backed loans to minority-owned businesses was five times greater in relation to overall dollar volume, five times greater to start-up companies, and eight times greater to women-owned businesses than conventional small business loans.

SBA's guaranties are also helping the lending community reach underserved markets. In the last fiscal year, SBA increased loans to underserved markets by more than 5.5 percent, approving more than 39,000 loans for more than \$7.5 billion in underserved areas – that's more than one-third of all loans we approved, and it's growing faster than our programs overall.

Third, we are addressing it through partnerships. We're leveraging these partnerships to increase our outreach to teach aspiring entrepreneurs and current small business owners what they need to know about starting and growing a business. We announced a co-sponsorship with the Operation HOPE center in Harlem earlier this month, that would bring counselors from our existing resource partners as well as staff from our New York District Office into the center on a rotating basis. We hope to expand to additional locations in 2008.

We're designing a program called the SBA Emerging 200 to accelerate the growth of emerging inner city companies with strong potential. These companies would be run through an intensive curriculum that will include technical assistance and mentorship, with a focus on growth strategies and pursuing growth capital. We are working with a non-profit founded by economist Michael Porter, called the Initiative for a Competitive Inner City, in order to leverage their expertise to help us design and implement the program.

And we're forging new partnerships to get more venture capital investment to companies in underserved areas. We will be working with ICIC on a program called Inner City Capital Connections, which identifies investment-ready inner city companies and helps connect them with venture capital investors. I would encourage you all to be in contact with Joe Shepard at the SBA if you would like to be part of this important mission.

Finally, we're helping small businesses in underserved markets obtain more federal contracts, which is an important way of invigorating entrepreneurship.

Although I have focused on specific ways in which we are expanding our underserved markets initiative, we are driving much broader organizational and operational reforms at the agency to improve the effectiveness and responsiveness of our programs across the board – in our disaster, lending, procurement and technical assistance programs. We need to apply sound management principles in order to deliver operational solutions. President Bush recognized very early on when he rolled out the President's Management Agenda to improve management throughout the federal government.

In addition, better programs are no substitute for sound, well-shaped economic policies that unleash the power of entrepreneurial capitalism. Entrepreneurship is inherent to our national genetic code, and it needs to be fostered – not inhibited. We need policies from Washington that encourage entrepreneurship so that small businesses continue to grow, create jobs, spur innovation, and fuel our economy.

Washington needs to create a hospitable environment where entrepreneurs can flourish. And that is why President Bush is the best friend small business owners have in this country.

He is committed to lower taxes, less burdensome regulation, more free trade, and policies that help small businesses afford health care coverage for their employees.

The tax burden small businesses face needs to be permanently reduced. Lower taxes mean more dollars available for investment, for sales expansion, and for employee benefits. There are specific policies that we need to adopt to make sure this happens.

First, the reduction in the capital gains tax that President Bush delivered in 2003 needs to be made permanent. Taxes on capital gains discourage investment because they reduce the potential return on investment, which in turn lowers the incentive to take that risk in the first place. Small businesses depend on capital to grow, and so it's imperative that we do all we can to incentivize investment across the country.

Second, the ability to accelerate deductions should also be made permanent. Small businesses can deduct all or part of the cost of certain qualifying property in the year it is placed in service rather than over an extended period. The President's tax relief package increased the amount of qualified purchases that small businesses can expense directly. This is another measure that boosts incentives for investment back into the business.

Third, most small businesses pay personal income tax, and so we need to make permanent the reduced marginal individual income tax rates, as well, in order to free up more dollars for investment.

President Bush's tax relief addressed all three of these points, and the results have been very strong. The economic growth spurred by the President's tax cuts has also yielded increased federal tax receipts. Our economy has created more than 8.1 million jobs in just over four years – and most of those were created by small business. September was the 49th straight month of continuous job growth, which is unprecedented. The President's tax relief needs to be made permanent, however.

In addition to reducing the tax burden on small businesses, we must also address burdensome regulations. Small firms pay more per employee than big firms to comply with federal regulations – about 45 percent more, according to a study commissioned by our Office of Advocacy. Many regulations are expensive, onerous, and take time that entrepreneurs could better use growing their business.

Our Office of Advocacy ensures that the concerns of small businesses are represented in the federal legislative and rule-making processes by making sure that lawmakers understand the cost of new regulations on small business. Its mission is to limit the burden placed on small business through regulation.

It's also important that small businesses are able to expand into new markets.

The number of U.S. small businesses that export is increasing, as is the value of their exports. The value of exports from small businesses has grown by 35 percent, or \$60 billion, between 1999 and 2005.

Small firms see the great opportunities that exist in international markets. There were almost 10,000 more small businesses that exported from the United States in 2005 than in 1999. In all, more than 97 percent of all U.S. exporting companies are small – and more than 70 percent have fewer than 20 employees. Small businesses accounted for 29 percent of the value of U.S. exports.

We want to see more small businesses begin exporting, and for those that already are, we want to see them expand into a still greater number of markets. But to do this, the barriers to trade need to come down. The Internet, global telecommunications, low-cost shipping alternatives, and widely available transaction technologies are leveling the playing field for small business. But other, artificial, impediments exist in the form of tariffs, duties, and quotas.

President Bush's trade policies speak for themselves: In 2006, exports increased by 12.7 percent, reaching a record \$1.4 trillion. U.S. exports last month hit a record \$138.3 billion, and exports for the year are 11.6 percent higher than they were this time last year.

These agreements are also good for small business exporters. As a result of NAFTA, for instance, small business exports to Canada and Mexico between 1992 and 2003 almost doubled (from \$25 billion to \$48 billion),

and also grew as a percentage of all exports (from 24 percent of all small business exports to 28 percent).

And before we passed CAFTA, we had a trade deficit with the six Central American countries included in the treaty. And now, in the first half of this year, our trade surplus with the six CAFTA countries was \$1.2 billion – twice what it was at this point last year.

President Bush has presented Congress with an opportunity to remove some of these barriers by enacting free trade agreements with South Korea, Peru, Colombia, and Panama. Approving these four free trade agreements will further open markets with a total of 126 million people and a combined GDP of \$1.1 trillion.

More than 80 percent of imports from Peru, Colombia, and Panama already enter the U.S. duty-free. Congress has already given farmers, ranchers and workers in these countries preferential access to our market.

Congress needs to pass these free trade agreements to level the playing field for U.S. exporters, especially small businesses.

Let me finish by discussing the issue that tops the list for small business owners: access to affordable health-care coverage. I have met with hundreds of small businesses, and no issue raises their emotion as much as this one. This is an issue with moral as well as economic dimensions. Small business owners are often in the position of weighing health care for their employees against investing to grow the business, remain competitive, or even remain viable.

And a big part of that is because small businesses pay much more for health care than large businesses, are prohibited from leveraging their buying power for lower rates, and often don't have the same tax advantages as big businesses.

It's particularly concerning when you consider that most of our uninsured workforce is employed by small businesses. There are several different paths we as a country can take. Unfortunately, not all of them are good, and not all of them will make health care more affordable, available, and flexible.

President Bush started us down the right path by championing Health Savings Accounts, which are making coverage more affordable. He has also advocated for Association Health Plans, which would allow smaller employers to band together and leverage their buying power. This is a free market concept which costs the taxpayer nothing. Congress has consistently failed to pass it, and many Americans are uninsured because of it.

In addition, the President has proposed that individuals who buy health insurance on their own should be able to deduct those payments as those who have an employer plan. These changes that the President has pushed for would reduce the cost of health care for small businesses while also preserving choice better than the alternatives.

The President has also supported increasing the State Children's Health Insurance Program (SCHIP) by \$5 billion over the next five years. This is an important program for children who do not qualify for Medicare, but whose families can not afford private insurance. Congress, however, sent the President a bill that would increase the program by a staggering \$35 billion over five years. That bill, moreover, would have expanded the eligibility requirements to cover anyone up to the age of 25 and in a family that made up to 400 percent above the poverty level, or \$82,000 a year for a family of four. It would lead to individuals dropping their private health insurance in favor of the government-run program.

President Bush vetoed that bill, but the House has passed a modified version of the bill that would still move an estimated 2 million children off of their private insurance and into government-funded health care. This is fundamentally the wrong way to go, and the fact that Congress would raise taxes to do it makes it all the worse. Congress needs to pass a bill with a reasonable funding increase that will preserve this program for the children it was originally intended to cover, and will keep our country on track toward a market-based solution to providing access to affordable health care.

On health care, international trade, taxes and regulation, these are the policies we need to pursue to help small businesses succeed. And they are the policies that the President has advanced. I encourage you to really understand and to be engaged in the policy debate here in Washington

because these are the issues that impact every one of the businesses you invest in and support. Ultimately, these are also the issues that affect the vitality of our economy, making them important issues for all of us.

I spoke also a lot today about underserved markets, and why specifically targeting underserved markets is so critical to us. Through a focused delivery of our products, we can unlock the power of entrepreneurship in the communities that need it most. I spoke also spoke about partnership, because our partners are the ones that actually deliver the products and services the SBA offers. And you, as our partners, have a role to play. We want to work closely with you to find ways to get venture capital into underserved markets. Together with you and our other partners we can have a greater hand in enabling small business success in underserved markets across the country. This is how we can empower real, lasting change for the better.